UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF IOWA

IN RE:	)	CHAPTER 11
	)	CASE NO. 20-00411W
RYANS ELECTRICAL SERVICES, LLC.	)	
	)	
Debtor.	)	

**SUBCHAPTER V TRUSTEE'S REPORT RE:
DEBTOR'S PLAN OF REORGANIZATION**

I. Perspective:

As the Subchapter V Trustee for the Ryan's Electrical Services ("RES") case, I have approached the task of evaluating the "Plan of Reorganization" with the perspective of making a business investment, along with all of the other statutory requirements of the position. The creditors in this case are being asked to invest their claims in the company in hopes that there will be a return.

In my career I have worked with many companies and organizations to support and improve their operations and performance. Following are my observations, evaluations, and suggestions regarding the RES operations, management, finances, and its reorganization plan.

II. Company

- Strengths:
  - Sales acquisition and closing:
    - Ryan Etten has experience in electrical project sales.
    - He worked for IES, the former owners of the business, and has owned the company for 8+ years.
    - In previous years RES generated more than $5,000,000 of revenue.
    - RES currently has $1,800,000 in projected revenue through October.
  - Vendor Relationships:
    - RES currently has joint check procedures with three supply vendors to secure materials for jobs.
    - RES has good legal counsel.
  - Intangibles:
    - The work location in Ankeny is in an expanding area that has good potential for projects suited to RES.
    - Ryan Etten and Carrie Etten, Debtor's bookkeeper, have been willing to work with me and other professionals to improve and identify issues in the business.

- Areas of concern:
    - Sales management:
        - There is a lack of a sales management system or procedure to Identify a lead or opportunity and track it to a sale or lost opportunity.
        - There is not a sales funnel or an identification and tracking of sales opportunities.
        - Currently sales and leads "just happen", they are not intentionally generated and pursued (identified in conversation with Ryan and Carrie). It is great they have gotten jobs this way, but it does not support a uniform, predictable and sustainable business growth model. When a downturn comes, a business needs a way to find work.
    - Financial management / control:
        - Accounting practices:
            - The reliability of the current books and financial reporting are questionable.
                - Monthly Operating Reports have not been complete.
                - Reporting is not consistent in format or content.
                - Old non collectable entries are on the accounts receivable report and account.
            - Accounting procedures do not seem to include verifying and balancing accounts.
                - Unapplied credits on AR
                - Bank statement transactions do not match check register
                    - Blue Vine entries as an example
            - Account cleanup is not being done.
                - An example is an open receivable invoice from 2018 for $23,222. This is most likely uncollectable and needs to be written off.
                - There are approximately $90,000 in receivables that are dated before November of 2019 and as far back as November of 2016. It is questionable if these are collectable.
        - There is a lack of personnel with bookkeeping, accounting, and financial reporting skills.
            - Carrie is motivated and tries, but I sense this is not the area that she is the most comfortable in.
            - Interaction with accounting firm has not been consistent.

        - There is a lack of personnel with financial evaluation, projection, and execution skills.
            - The lack of ability to project revenue, expenses, and cash needs is an issue
                - Cash shortage and nonpayment of payroll tax and vendors are an examples of the problems.
            - Financial decision making and willingness to execute difficult financial decisions has not been demonstrated.
                - Example:
                    - Nonpayment of payroll taxes
                    - Diversion of employee simple plan contributions
    - Job cost / performance management:
        - Job cost control procedures or job cost to bid reports have not been provided.
        - Inventory control and issuance to jobs is not systemized, a spreadsheet is being used.

III. Plan of Reorganization

- Liquidation analysis:
    - liquidation would most likely result in taxing authorities receiving some repayment and no funds for other creditors.
        - The quality of accounts receivable balance is in question.
        - Inventory is not easy to liquidate and will not bring market value.
        - Collecting on AR for custom work is not easy especially when the contractor no longer exists.
- Financial plan and projection:
    - Revenue projections of $200k a month may be the average but cash flow in the next 6 months should be lined out including expenses.
    - RES works on custom projects that require supplies like wire and electrical gear to be supplied to the job site at the projects start. The invoice from RES to the end customer for supplies and labor associated with the project may be 60 to 90 days after supplies and labor have been provided to the project. The customer will take an additional 30 – 45 days to issue payment. In this scenario RES will need to float all the costs of the job for at least 2 – 3 months before seeing any cash. This could lead to a cash shortage if not planned for. A cash shortage would impact the ability to pay creditors, suppliers, and plan payments.
    - Yogi Berra — "It's tough to make predictions, especially about the future"

- Plan open issues:
    - Procurement of supplies / materials:
        - How will RES secure materials for jobs?
            - Will all jobs have joint check agreements?
            - Will RES be selling all supplies at cost and forgoing any markups that were part of revenue in the past?
            - Are the current creditors (Echo, 3E, others) willing to supply the company on new jobs?
    - Working Capital:
        - How will RES cover cash shortfalls and timing issues?
        - Will a mainstream financial institution supply a line of credit to RES?
        - What is the projected cash reserve?
            - All businesses need to have some cash available to purchase supplies and pay for personnel before payment is received from a customer. Depending on the size of projects and other expenses, a reserve of $200,000 to $300,000 would be expected for RES. In a normal operation this may consist of cash and a line of credit. RES will be coming out of bankruptcy and bound to make plan payments. Will they have any access to a cash reserve?
    - Personnel:
        - Will there be a change in staff to support finance and accounting functions?
        - Are any other staffing changes projected?
            - Sales
            - Job management / cost control
            - other
    - Income tax:
        - Will the write off of debt result in a tax bill with no profits for payment?
        - RES is an S corp, the tax liability flows through the K1 to the shareholder.

IV. Summary

RES is in bankruptcy because of management and operational decisions that resulted in adverse financial consequences. Jobs were under bid or mismanaged resulting in cash shortages. The cash shortages were filled by failing to pay employment taxes and diverting employee withheld simple plan funds to other debts.

Creditors and employees have invested a substantial amount in RES and it appears the best outcome for all stakeholders is to help RES be successful and well managed. The current plan of reorganization does lay out a financial prediction that may result in payment of creditors, but it is short on plans to fix the underlying management and operational issues.

In the end the presented plan most likely meets the legal requirements of the court, but it has a lower chance of success than a plan that includes financial, management and operational improvement plans, goals, and milestones. (Business Plan)

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